

CLARKE COUNTY

INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS

JUNE 30, 2006

TABLE OF CONTENTS

	Page
OFFICIALS	3
INDEPENDENT AUDITOR’S REPORT	4-5
BASIC FINANCIAL STATEMENTS	
Exhibit	
Government-Wide Financial Statements:	
A Statement of Net Assets	8-9
B Statement of Activities	10
Governmental Fund Financial Statements:	
C Balance Sheet	12-15
D Reconciliation of the Balance Sheet – Governmental Funds to the Statement of Net Assets	16
E Statement of Revenues, Expenditures and Changes in Fund Balances	18-19
F Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds to the Statement of Activities	20
Proprietary Fund Financial Statements:	
G Statement of Net Assets	21
H Statement of Revenues, Expenses, and Changes in Net Assets	22
I Statement of Cash Flows	23
Fiduciary Fund Financial Statements:	
J Statement of Fiduciary Assets and Liabilities – Agency Funds	24
Notes to Financial Statements	25-40
REQUIRED SUPPLEMENTARY INFORMATION:	
Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances – Budget and Actual (Cash Basis) – All Governmental Funds	42
Budget to GAAP Reconciliation	43
Notes to Required Supplementary Information – Budgetary Reporting	44
OTHER SUPPLEMENTARY INFORMATION:	
Schedule	
Nonmajor Governmental Funds:	
1 Combining Balance Sheet	46-47
2 Combining Schedule of Revenues, Expenditures and Changes in Fund Balances	48-50
Internal Service Funds:	
3 Combining Schedule of Net Assets	51
4 Combining Schedule of Revenues, Expenses, and Changes in Net Assets	52
5 Combining Schedule of Cash Flows	53
Agency Funds:	
6 Combining Schedule of Fiduciary Assets and Liabilities	54-57
7 Combining Schedule of Changes in Fiduciary Assets and Liabilities	58-61
8 Schedule of Revenues by Source and Expenditures by Function – All Governmental Funds	62
INDEPENDENT AUDITOR’S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS	63-64
SCHEDULE OF FINDINGS	65-69

CLARKE COUNTY

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Myron Manley	Board of Supervisors	Jan. 2007
Jack Cooley	Board of Supervisors	Jan. 2009
Donald Reasoner	Board of Supervisors	Jan. 2009
Judy Church	County Auditor	Jan. 2009
Kim Reynolds	County Treasurer	Jan. 2007
Pennie Gonseth	County Recorder	Jan. 2007
Mark Addison	County Sheriff	Jan. 2009
Elisabeth S. Reynoldson	County Attorney	Jan. 2007
Walt Paschell	County Assessor	Jan. 2010

INDEPENDENT AUDITOR'S REPORT

To the Officials of Clarke County:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Clarke County, Iowa, as of and for the year ended June 30, 2006, which collectively comprise the County's basic financial statements listed in the table of contents. These basic financial statements are the responsibility of Clarke County's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Clarke County at June 30, 2006 and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated December 20, 2006 on our consideration of Clarke County's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, and contracts and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

The budgetary comparison information on pages 42 through 44 is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

The County has not presented management's discussion and analysis, which introduces the basic financial statements by presenting certain financial information as well as management's analytical insights on that information, that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise Clarke County's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2005 (none of which are presented herein). For the two years ended June 30, 2005, we expressed unqualified opinions on those financial statements. For the year ended June 30, 2003, we expressed a qualified opinion on those financial statements due to inadequate documentation of subrecipient monitoring. Other supplementary information included in Schedules 1 through 8 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Oskaloosa, Iowa
December 20, 2006

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Basic Financial Statements

CLARKE COUNTY
STATEMENT OF NET ASSETS
June 30, 2006

	<u>Governmental Activities</u>
Assets	
Cash and pooled investments	\$ 4,532,087
Receivables:	
Property tax:	
Delinquent	26,484
Succeeding year	2,890,000
Interest and penalty on property tax	146,632
Accounts	60,743
Accrued interest	10,934
Due from other governments	344,515
Contract receivable (note 4)	30,000
Inventories	130,810
Prepaid expenses	105,987
Capital assets, net of accumulated depreciation (note 5)	<u>13,024,745</u>
Total assets	<u>21,302,937</u>
Liabilities	
Accounts payable	169,999
Salaries and benefits payable	51,954
Due to other governments (note 6)	373,117
Accrued interest payable	93,454
Deferred revenue:	
Succeeding year property tax	2,890,000
Long-term liabilities (note 7):	
Portion due or payable within one year:	
Capital loan notes	113,750
Real estate purchase agreement	19,376
Local option sales and services tax revenue bonds	184,920
Child care center revenue notes	5,664
Compensated absences	129,288
Portion due or payable after one year:	
Capital loan notes	238,750
Real estate purchase agreement	63,402
Local option sales and services tax revenue bonds	2,662,940
Child care center revenue notes	<u>538,929</u>
Total liabilities	<u>7,535,543</u>

CLARKE COUNTY
STATEMENT OF NET ASSETS
June 30, 2006

	<u>Governmental Activities</u>
Net Assets	
Invested in capital assets, net of related debt	\$ 9,429,514
Restricted for:	
Supplemental levy purposes	320,201
Mental health purposes	4,209
Rural services	427,325
Secondary roads	572,126
Local option sales and services tax purposes	2,376,537
Other special revenue purposes	156,484
Inmate room and board	28,503
Unrestricted	<u>452,495</u>
Total net assets	<u>\$ 13,767,394</u>

See notes to financial statements.

CLARKE COUNTY
STATEMENT OF ACTIVITIES
Year Ended June 30, 2006

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and and Changes in Net Assets
		Charges for Services	Operating Grants, Contributions and Restricted Interest	
Governmental Activities:				
Public safety and legal services	\$ 1,433,840	\$ 444,372	\$ 6,881	\$ (982,587)
Physical health and social services	894,811	150,124	274,071	(470,616)
Mental health	1,021,097	-	454,430	(566,667)
County environment and education	276,682	11,743	4,798	(260,141)
Roads and transportation	2,650,361	279,100	1,514,350	(856,911)
Government services to residents	387,490	169,394	85,745	(132,351)
Administration	816,909	8,429	6,544	(801,936)
Interest on long-term debt	216,689	-	74,668	(142,021)
Total	\$ 7,697,879	\$ 1,063,162	\$ 2,421,487	(4,213,230)
General Revenues:				
Property and other county tax levied for:				
General purposes				2,635,805
Debt service				84,164
Penalty and interest on property tax				61,007
State tax credits				146,932
Local option sales and services tax				724,376
Gaming tax				286,132
Unrestricted investment earnings				189,773
Total general revenues				4,128,189
Change in net assets				(85,041)
Net assets beginning of year				13,852,435
Net assets end of year				\$ 13,767,394

See notes to financial statements.

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CLARKE COUNTY
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2006

	<u>Special Revenue</u>			
	<u>General</u>	<u>Mental Health</u>	<u>Rural Services</u>	<u>Secondary Roads</u>
Assets				
Cash and pooled investments	\$ 598,926	\$ 375,268	\$ 441,604	\$ 367,476
Receivables:				
Property tax:				
Delinquent	17,278	4,117	4,268	-
Succeeding year	1,830,000	410,000	567,000	-
Interest and penalty on property tax	146,632	-	-	-
Accounts	44,517	-	-	15,560
Accrued interest	10,584	-	-	-
Due from other governments	58,162	-	-	138,284
Contract receivable (note 4)	-	-	-	30,000
Inventories	-	-	-	130,810
Prepaid expenses	79,925	-	-	26,062
Total assets	<u>\$ 2,786,024</u>	<u>\$ 789,385</u>	<u>\$ 1,012,872</u>	<u>\$ 708,192</u>

<u>Local Option Sales and Services Tax Revenue</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ 1,926,583	\$ 575,990	\$ 4,285,847
-	821	26,484
-	83,000	2,890,000
-	-	146,632
-	666	60,743
-	350	10,934
148,069	-	344,515
-	-	30,000
-	-	130,810
-	-	105,987
<u>\$ 2,074,652</u>	<u>\$ 660,827</u>	<u>\$ 8,031,952</u>

CLARKE COUNTY
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2006

	Special Revenue			
	General	Mental Health	Rural Services	Secondary Roads
Liabilities and Fund Balances				
Liabilities:				
Accounts payable	\$ 58,794	\$ 7,975	\$ 221	\$ 73,199
Salaries and benefits payable	31,448	111	5,564	14,831
Due to other governments (note 6)	6,027	367,090	-	-
Deferred revenue:				
Succeeding year property tax	1,830,000	410,000	567,000	-
Other	163,910	4,117	4,268	30,000
Total liabilities	<u>2,090,179</u>	<u>789,293</u>	<u>577,053</u>	<u>118,030</u>
Fund balance:				
Reserved for:				
Inventories	-	-	-	130,810
Prepaid expenses	79,925	-	-	26,062
Supplemental levy purposes	280,791	-	-	-
Debt service	-	-	-	-
Local option sales and services tax revenue bonds	-	-	-	-
Inmate room and board	28,503	-	-	-
Unreserved, reported in:				
General fund	306,626	-	-	-
Special revenue funds	-	92	435,819	433,290
Total fund balances	<u>695,845</u>	<u>92</u>	<u>435,819</u>	<u>590,162</u>
Total liabilities and fund balances	<u>\$ 2,786,024</u>	<u>\$ 789,385</u>	<u>\$ 1,012,872</u>	<u>\$ 708,192</u>

See notes to financial statements.

<u>Local Option</u>		
<u>Sales and</u>	<u>Nonmajor</u>	<u>Total</u>
<u>Services Tax</u>	<u>Governmental</u>	<u>Governmental</u>
<u>Revenue</u>	<u>Funds</u>	<u>Funds</u>
\$ -	\$ 29,810	\$ 169,999
-	-	51,954
-	-	373,117
-	83,000	2,890,000
-	821	203,116
-	113,631	3,688,186
-	-	130,810
-	-	105,987
-	-	280,791
-	22,712	22,712
-	368,000	368,000
-	-	28,503
-	-	306,626
2,074,652	156,484	3,100,337
2,074,652	547,196	4,343,766
\$ <u>2,074,652</u>	\$ <u>660,827</u>	\$ <u>8,031,952</u>

CLARKE COUNTY

RECONCILIATION OF THE BALANCE SHEET – GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
June 30, 2006

Total fund balances of governmental funds	\$ 4,343,766
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Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not current financial resources and, therefore, are not reported as assets in the governmental funds. The cost of assets is \$19,215,298 and the accumulated depreciation is \$6,190,553.	13,024,745
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Other long-term assets are not available to pay current period expenditures and, therefore, are deferred in the governmental funds.	203,116
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The Internal Service Funds are used by management to charge the costs of the County's health insurance and flexible spending benefit plans to individual funds. The assets and liabilities of the Internal Service Funds are included in governmental activities in the statement of net assets.	246,240
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Accrued interest payable on long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.	(93,454)
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Long-term liabilities, including bonds payable, notes payable, purchase agreements payable, and compensated absences payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.	<u>(3,957,019)</u>
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Net assets of governmental activities	<u><u>\$ 13,767,394</u></u>
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See notes to financial statements.

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CLARKE COUNTY

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year Ended June 30, 2006

	Special Revenue			
	General	Mental Health	Rural Services	Secondary Roads
Revenues:				
Property and other County tax	\$ 1,972,388	\$ 401,861	\$ 544,950	\$ -
Interest and penalty on property tax	37,986	-	-	-
Intergovernmental	918,445	475,651	32,300	1,524,350
Licenses and permits	4,050	-	4,320	520
Charges for service	264,720	-	653	393
Use of money and property	185,611	-	-	-
Miscellaneous	40,861	-	955	278,187
Total revenues	3,424,061	877,512	583,178	1,803,450
Expenditures:				
Operating:				
Public safety and legal services	1,265,657	-	103,530	-
Physical health and social services	897,918	-	-	-
Mental health	-	1,021,097	-	-
County environment and education	167,092	-	81,237	-
Roads and transportation	-	-	-	2,149,188
Government services to residents	372,587	-	-	-
Administration	729,359	-	-	-
Debt service	-	-	-	-
Capital projects	42,339	-	-	51,839
Total expenditures	3,474,952	1,021,097	184,767	2,201,027
Excess (deficiency) of revenues over (under) expenditures	(50,891)	(143,585)	398,411	(397,577)
Other financing sources (uses):				
Interfund transfers in (note 3)	-	-	-	450,000
Interfund transfers out (note 3)	-	-	(462,500)	-
Capital loan notes issued	30,000	-	-	-
Total other financing sources (uses)	30,000	-	(462,500)	450,000
Net change in fund balances	(20,891)	(143,585)	(64,089)	52,423
Fund balances beginning of year	716,736	143,677	499,908	537,739
Fund balances end of year	\$ 695,845	\$ 92	\$ 435,819	\$ 590,162

See notes to financial statements.

Local Option Sales and Services Tax Revenue	Nonmajor Governmental Funds	Total
\$ 724,376	\$ 84,597	\$ 3,728,172
-	-	37,986
-	80,854	3,031,600
-	-	8,890
-	2,498	268,264
-	7,203	192,814
-	3,625	323,628
<u>724,376</u>	<u>178,777</u>	<u>7,591,354</u>
-	-	1,369,187
-	-	897,918
-	-	1,021,097
-	-	248,329
-	-	2,149,188
-	16,059	388,646
-	-	729,359
24,927	518,755	543,682
-	29,810	123,988
<u>24,927</u>	<u>564,624</u>	<u>7,471,394</u>
<u>699,449</u>	<u>(385,847)</u>	<u>119,960</u>
-	186,555	636,555
(174,055)	-	(636,555)
-	-	30,000
<u>(174,055)</u>	<u>186,555</u>	<u>30,000</u>
525,394	(199,292)	149,960
<u>1,549,258</u>	<u>746,488</u>	<u>4,193,806</u>
<u>\$ 2,074,652</u>	<u>\$ 547,196</u>	<u>\$ 4,343,766</u>

CLARKE COUNTY

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND
BALANCES – GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
Year Ended June 30, 2006

Net change in fund balances - total governmental funds \$ 149,960

Amounts reported for governmental activities in the statement of activities
are different because:

Governmental funds report capital outlays as expenditures while
governmental activities report depreciation expense to allocate those
expenditures over the life of the assets. The amount of capital outlays and
depreciation expense in the current year are as follows:

Capital outlays	\$	35,608	
Depreciation expense		<u>(716,123)</u>	(680,515)

Because some revenues will not be collected for several months after the
County's year end, they are not considered available revenues and are
deferred in the governmental funds.

Property tax		2,306	
Other		<u>13,021</u>	15,327

Capital loan note proceeds provide current financial resources to
governmental funds, but issuing debt increases long-term liabilities in the
statement of net assets. (30,000)

Repayments of bond, note, and purchase agreement principal are
expenditures in the governmental funds, but the repayments reduce
long-term liabilities in the statement of net assets. 401,009

Some expenses reported in the statement of activities do not require the use
of current financial resources and, therefore, are not reported as
expenditures in governmental funds, as follows:

Compensated absences		2,163	
Interest on long-term debt		<u>4,936</u>	7,099

The Internal Service Funds are used by management to charge the costs of
employee health and flexible spending benefits to individual funds. The
changes in net assets of the Internal Service Funds are reported with
governmental activities.

52,079

Change in net assets of governmental activities \$ (85,041)

See notes to financial statements.

CLARKE COUNTY
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
June 30, 2006

	<u>Internal Service Funds</u>
Assets	
Cash and cash equivalents	\$ <u>246,240</u>
Liabilities	
None	<u>-</u>
Net Assets	
Unrestricted	\$ <u><u>246,240</u></u>
See notes to financial statements.	

CLARKE COUNTY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
PROPRIETARY FUNDS
Year Ended June 30, 2006

	Internal Service Funds
	<u> </u>
Operating revenues:	
Charges to operating funds	\$ 454,110
Charges to employees and others	<u>153,471</u>
Total operating revenues	<u>607,581</u>
Operating expenses:	
Medical claims	376,044
Flexible spending claims	4,032
Administrative fees	<u>181,583</u>
Total operating expenses	<u>561,659</u>
Operating income	45,922
Non-operating revenues:	
Interest on investments	<u>6,157</u>
Net income	52,079
Net assets beginning of year	<u>194,161</u>
Net assets end of year	<u>\$ 246,240</u>

See notes to financial statements.

CLARKE COUNTY
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
Year Ended June 30, 2006

	Internal Service Funds
Cash flows from operating activities:	
Cash received from operating fund reimbursements	\$ 413,180
Cash received from employees and others	153,471
Cash payments to suppliers for services	<u>(549,131)</u>
Net cash provided by operating activities	<u>17,520</u>
Cash flows from investing activities:	
Interest on investments	<u>6,627</u>
Net increase in cash and cash equivalents	24,147
Cash and cash equivalents at beginning of year	<u>222,093</u>
Cash and cash equivalents at end of year	<u><u>\$ 246,240</u></u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 45,922
Adjustments to reconcile operating income to net cash provided by operating activities:	
Decrease in prepaid expenses	15,393
(Decrease) in accounts payable	(2,865)
(Decrease) in deferred revenue	<u>(40,930)</u>
Net cash provided by operating activities	<u><u>\$ 17,520</u></u>

See notes to financial statements.

CLARKE COUNTY
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
AGENCY FUNDS
June 30, 2006

Assets	
Cash and pooled investments:	
County Treasurer	\$ 455,184
Other County officials	38,181
Receivables:	
Property tax:	
Delinquent	109,438
Succeeding year	8,393,000
Due from other governments	39,195
Prepaid expenses	<u>3,555</u>
Total assets	<u>9,038,553</u>
Liabilities	
Accounts payable	21,346
Salaries and benefits payable	8,959
Due to other governments (note 6)	8,956,608
Trusts payable	40,615
Compensated absences	<u>11,025</u>
Total liabilities	<u>9,038,553</u>
Net assets	\$ <u><u>-</u></u>

See notes to financial statements.

CLARKE COUNTY
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2006

Note 1. Summary of Significant Accounting Policies

Clarke County is a political subdivision of the State of Iowa and operates under the Home Rule provisions of the Constitution of Iowa. The County operates under the Board of Supervisors form of government. Elections are on a partisan basis. Other elected officials operate independently with the Board of Supervisors. These officials are the Auditor, Treasurer, Recorder, Sheriff, and Attorney. The County provides numerous services to citizens, including law enforcement, health and social services, parks and cultural activities, planning and zoning, roadway construction and maintenance, and general administrative services.

The County's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, Clarke County has included all funds, organizations, agencies, boards, commissions and authorities. The County has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the County are such that exclusion would cause the County's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the County to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the County. Clarke County has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations – The County also participates in several jointly governed organizations that provide goods or services to the citizenry of the County but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The County Board of Supervisors are members of or appoint representatives to the following boards and commissions: Clarke County Assessor's Conference Board, Clarke County Hospital Board, and Clarke County Environmental Services Board, which handles the Emergency Management System. Financial transactions of these organizations are included in the County's financial statements only to the extent of the County's fiduciary relationship with the organization and, as such, are reported in the Agency Funds of the County.

B. Basis of Presentation

Government-wide Financial Statements – The statement of net assets and the statement of activities report information on all of the nonfiduciary activities of the County. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities are supported by property tax, intergovernmental revenues and other nonexchange transactions.

The statement of net assets presents the County's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt attributable to the acquisition, construction, or improvement of those assets.

CLARKE COUNTY

NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2006

Note 1. Summary of Significant Accounting Policies (continued)

B. Basis of Presentation (continued)

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management, which can be removed or modified.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements – Separate financial statements are provided for governmental, proprietary, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other nonmajor governmental funds.

The County reports the following major governmental funds:

The General Fund is the general operating fund of the County. All general tax revenues and other revenues that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenses, the fixed charges and the capital improvement costs that are not paid from other funds.

Special Revenue:

The Mental Health Fund is used to account for property tax and other revenues designated to be used to fund mental health, mental retardation, and developmental disabilities services.

The Rural Services Fund is used to account for property tax and other revenues to provide services which are primarily intended to benefit those persons residing in the County outside of incorporated city areas.

The Secondary Roads Fund is used to account for secondary road construction and maintenance.

The Local Option Sales and Services Tax Revenue Fund is used to account for the County's revenues and expenditures related to the local option sales and services tax.

CLARKE COUNTY
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2006

Note 1. Summary of Significant Accounting Policies (continued)

B. Basis of Presentation (continued)

Additionally, the County reports the following funds:

Proprietary Fund - Internal Service Funds are used to account for the financing of goods or services purchased by one department of the County and provided to other departments or agencies on a cost reimbursement basis.

Fiduciary Funds - Agency Funds are used to account for assets held by the County as an agent for individuals, private organizations, certain jointly governed organizations, other governmental units and/or other funds. Agency Funds are custodial in nature, assets equal liabilities, and do not involve measurement of results of operations.

C. Measurement Focus and Basis of Accounting

The government-wide, proprietary fund and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the County considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest are considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the County.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments and compensated absences are recorded as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under the terms of grant agreements, the County funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the County's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants, and then by general revenues.

CLARKE COUNTY
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2006

Note 1. Summary of Significant Accounting Policies (continued)

C. Measurement Focus and Basis of Accounting (continued)

The proprietary fund of the County applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the County's internal service fund are charges to customers for sales and services. Operating expenses for internal service funds include the cost of services and administrative expenses. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The County maintains its financial records on the cash basis. The financial statements of the County are prepared by making memorandum adjusting entries to the cash basis financial records.

D. Assets, Liabilities and Fund Equity

The following accounting policies are followed in preparing the balance sheet:

Cash, Pooled Investments and Cash Equivalents – The cash balances of most County funds are pooled and invested. Interest earned on investments is recorded in the General Fund, unless otherwise provided by law. Investments are stated at fair value except for the investment in the Iowa Public Agency Investment Trust, which is valued at amortized cost, and non-negotiable certificates of deposit, which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, they have a maturity date no longer than three months.

Property Tax Receivable – Property tax in Governmental Funds is accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the County Board of Supervisors. Delinquent property taxes receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Supervisors to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the Board of Supervisors is required to certify its budget in March of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

CLARKE COUNTY
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2006

Note 1. Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities and Fund Equity (continued)

The property tax revenue recognized in these funds becomes due and collectible in September and March of the fiscal year with a 1 ½% per month penalty for delinquent payments; is based on January 1, 2004 assessed property valuations; is for the tax accrual period July 1, 2005 through June 30, 2006 and reflects the tax asking contained in the budget certified by the County Board of Supervisors in March 2005.

Interest and Penalty on Property Tax Receivable – Interest and penalty on property tax receivable represents the amount of interest and penalty that was due and payable but has not been collected.

Due from Other Governments – Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories – Inventories are valued at cost using the first-in, first-out method. Inventories in the Special Revenue Funds consist of expendable supplies held for consumption. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

Capital Assets – Capital assets, which include property, equipment and vehicles, and infrastructure assets (e.g., roads, bridges, curbs, gutters, sidewalks, and similar items which are immovable and of value only to the government), are reported in the governmental activities column in the government-wide statement of net assets. Capital assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Reportable capital assets are defined by the County as assets with initial, individual costs in excess of the following thresholds and estimated useful lives in excess of two years.

<u>Asset Class</u>	<u>Amount</u>
Infrastructure	\$ 250,000
Land, buildings and improvements	5,000
Equipment and vehicles	5,000

Capital assets of the County are depreciated using the straight line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives (In Years)</u>
Buildings	25-50
Improvements other than buildings	10-50
Infrastructure	10-65
Equipment	3-20
Vehicles	5-15

CLARKE COUNTY
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2006

Note 1. Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities and Fund Equity (continued)

Due to Other Governments – Due to other governments represents taxes and other revenues collected by the County and payments for services which will be remitted to other governments.

Trusts Payable – Trusts payable represents amounts due to others which are held by various County officials in fiduciary capacities until the underlying legal matters are resolved.

Deferred Revenue – Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represents the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of the succeeding year property tax receivable, delinquent property tax receivables and other receivables not collected within sixty days after year end.

Deferred revenue in the statement of net assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Compensated Absences – County employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, death or retirement. A liability is recorded when incurred in the government-wide, proprietary fund and fiduciary fund financial statements. A liability for these amounts is recorded in the governmental fund financial statements only for employees that have resigned or retired. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2006. The compensated absences liability attributable to the governmental activities will be paid primarily by the General, Rural Services and Secondary Roads Funds.

Long-term Liabilities – In the government-wide financial statements and the proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities or proprietary fund statement of net assets. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the governmental fund financial statements, the face amount of debt issued is reported as other financing sources. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Fund Balances – In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

CLARKE COUNTY

NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2006

Note 1. Summary of Significant Accounting Policies (continued)

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2006, disbursements in three departments exceeded the amounts appropriated prior to the amendment of the appropriations.

Note 2. Cash and Pooled Investments

The County's deposits in banks at June 30, 2006 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. The chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The County is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Supervisors; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The County had investments in the Iowa Public Agency Investment Trust which are valued at an amortized cost of \$2,775,739 pursuant to Rule 2a-7 under the Investment Company Act of 1940.

Credit Risk – The investment in Iowa Public Agency Investment Trust is unrated.

Note 3. Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2006 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Special Revenue: Secondary Roads	Special Revenue: Rural Services	\$ 450,000
SIRWA Grid Project Sinking	Rural Services	12,500
Local Option Sales and Services Tax Revenue Bond and Interest Sinking	Local Option Sales and Services Tax Revenue	<u>174,055</u>
		<u>\$ 636,555</u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources.

CLARKE COUNTY

NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2006

Note 4. Contract Receivable – Secondary Roads

As of June 30, 2006, the County has a long-term interest-free contract receivable from the City of Osceola for reimbursements from road paving. A summary of the payment schedule is as follows:

<u>Year Ending June 30,</u>	<u>City of Osceola</u>
2007	\$ 10,000
2008	10,000
2009	<u>10,000</u>
Total	<u>\$ 30,000</u>

Note 5. Capital Assets

A summary of capital assets activity for the year ended June 30, 2006 is as follows:

	<u>Balance Beginning of Year</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance End of Year</u>
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ <u>372,654</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>372,654</u>
Capital assets being depreciated:				
Buildings	6,137,340	-	-	6,137,340
Machinery and equipment	3,265,150	35,608	26,550	3,274,208
Infrastructure	9,431,096	-	-	9,431,096
Total capital assets being depreciated	<u>18,833,586</u>	<u>35,608</u>	<u>26,550</u>	<u>18,842,644</u>
Less accumulated depreciation for:				
Buildings	1,191,262	110,847	-	1,302,109
Machinery and equipment	2,015,708	290,906	26,550	2,280,064
Infrastructure	2,294,010	314,370	-	2,608,380
Total accumulated depreciation	<u>5,500,980</u>	<u>716,123</u>	<u>26,550</u>	<u>6,190,553</u>
Total capital assets being depreciated, net	<u>13,332,606</u>	<u>(680,515)</u>	<u>-</u>	<u>12,652,091</u>
Governmental activities capital assets, net	<u>\$ 13,705,260</u>	<u>\$ (680,515)</u>	<u>\$ -</u>	<u>\$ 13,024,745</u>

CLARKE COUNTY
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2006

Note 5. Capital Assets (continued)

Depreciation expense was charged to the following functions:

Governmental activities:

Public safety and legal services	\$ 106,633
County environment and education	11,570
Roads and transportation	546,099
Government services to residents	912
Administration	<u>50,909</u>

Total depreciation expense - governmental activities	<u><u>\$ 716,123</u></u>
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Note 6. Due to Other Governments

The County purchases services from other governmental units and also acts as a fee and tax collection agent for various governmental units. Tax collections are remitted to those governments in the month following collection. A summary of amounts due to other governments is as follows:

<u>Fund</u>	<u>Description</u>	<u>Amount</u>
General	Services	\$ 6,027
Special Revenue:		
Mental Health	Services	<u>367,090</u>
Total for governmental funds		<u><u>\$ 373,117</u></u>
Agency:		
County Assessor	Collections	\$ 237,645
Schools		4,259,189
Area Schools		185,321
Corporations		2,585,226
County Hospital		1,260,208
Auto License and Use Tax		126,461
All Other		<u>302,558</u>
Total for agency funds		<u><u>\$ 8,956,608</u></u>

CLARKE COUNTY

NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2006

Note 7. Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2006 is as follows:

	Balance Beginning of Year	Additions	Reductions	Balance End of Year	Due Within One Year
Installment Purchase Agreement	\$ 78,952	\$ -	\$ 78,952	\$ -	-
Capital Loan Notes	436,250	30,000	113,750	352,500	113,750
Real Estate Purchase Agreement	100,758	-	17,980	82,778	19,376
Local Option Sales and Services					
Tax Revenue Bonds	3,032,780	-	184,920	2,847,860	184,920
Child Care Center Revenue Notes	550,000	-	5,407	544,593	5,664
Compensated Absences	131,451	129,288	131,451	129,288	129,288
Total	<u>\$ 4,330,191</u>	<u>\$ 159,288</u>	<u>\$ 532,460</u>	<u>\$ 3,957,019</u>	<u>\$ 452,998</u>

Capital Loan Notes Payable

During the year ended June 30, 2004, the County approved the issuance of \$155,000 of capital loan notes on a draw down basis. As of June 30, 2006, all \$155,000 had been drawn. The proceeds are being used for County computer upgrades.

A summary of the County's general obligation capital loan note indebtedness at June 30, 2006 is as follows:

Year Ending June 30,	Series Dated September 1, 1994			Series Dated July 15, 1999		
	Interest Rates	Principal	Interest	Interest Rates	Principal	Interest
2007	5.75 %	\$ 35,000	\$ 9,213	4.625 %	\$ 40,000	\$ 5,550
2008	5.90	40,000	7,200	4.625	40,000	3,710
2009	6.00	40,000	4,840	4.625	40,000	1,850
2010	6.10	40,000	2,400	4.625	-	-
		<u>\$ 155,000</u>	<u>\$ 23,653</u>		<u>\$ 120,000</u>	<u>\$ 11,110</u>

Year Ending June 30,	Series Dated January 15, 2004			Total	
	Interest Rates	Principal	Interest	Principal	Interest
2007	3.70 %	\$ 38,750	\$ 2,867	\$ 113,750	\$ 17,630
2008	3.70	38,750	1,434	118,750	12,344
2009	-	-	-	80,000	6,690
2010	-	-	-	40,000	2,400
		<u>\$ 77,500</u>	<u>\$ 4,301</u>	<u>\$ 352,500</u>	<u>\$ 39,064</u>

CLARKE COUNTY

NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2006

Note 7. Long-Term Liabilities (continued)

Capital Loan Notes Payable (continued)

The County issued \$30,000 and retired \$113,750 in general obligation capital loan notes during the year ended June 30, 2006.

Real Estate Purchase Agreement

During the year ended June 30, 2000, the County entered into an agreement to purchase 6.2 acres of land, at a cost of \$175,000, for a new jail site. The contract is payable in 120 monthly installments of \$2,077 commencing April 4, 2000, including interest at an effective annual rate of 7.763%.

A summary of the County's June 30, 2006, real estate contract purchase agreement indebtedness is as follows:

Year Ending June 30,	Principal	Interest	Total
2007	\$ 19,376	\$ 5,551	\$ 24,927
2008	20,880	4,047	24,927
2009	22,501	2,426	24,927
2010	20,021	680	20,701
	<u>\$ 82,778</u>	<u>\$ 12,704</u>	<u>\$ 95,482</u>

The County retired \$17,980 of the real estate purchase agreement during the year ended June 30, 2006.

Local Option Sales and Services Tax Revenue Bonds

Details of the County's local option sales and services tax revenue bonds at June 30, 2006 are as follows:

Year Ending June 30,	Interest Rates	Principal	Interest	Total
2007	5.55 %	\$ 184,920	\$ 155,490	\$ 340,410
2008	5.55	184,920	145,227	330,147
2009	5.55	184,920	134,964	319,884
2010	5.55	184,920	124,701	309,621
2011	5.55	184,920	114,438	299,358
2012	5.55	1,923,260	53,370	1,976,630
Total		<u>\$ 2,847,860</u>	<u>\$ 728,190</u>	<u>\$ 3,576,050</u>

The County retired \$184,920 of local sales and services tax revenue bonds during the year ended June 30, 2006.

CLARKE COUNTY

NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2006

Note 7. Long-Term Liabilities (continued)

Local Option Sales and Services Tax Revenue Bonds (continued)

The local option sales and services tax revenue bonds were issued for the purpose of refunding the jail construction draw-down loan. The bonds are payable solely from the proceeds of the local option sales and services tax revenues received by the County and local participating incorporated and unincorporated areas in accordance with Chapter 422B.12 of the Code of Iowa. The bonds are not a general obligation of the County. The debt, however, is subject to the constitutional debt limitation of the County.

The resolution providing for the issuance of the local option sales and services revenue bonds includes the following provisions:

- (a) The bonds will only be redeemed from the future earnings of the local option sales and services tax revenues received by the County and the bond holders hold a lien on the future revenues received.
- (b) Sufficient monthly deposits amounting to one sixth of the next principal and interest payments shall be made to the Local Option Sales and Services Tax Revenue Bond and Interest Sinking Fund for the purpose of making the bond principal and interest payments when due.
- (c) A separate bond reserve fund will be maintained in the amount of \$368,000 to be used solely for the purpose of paying principal and interest in the event the revenue fund does not have sufficient funds for that purpose. This fund is called the Local Option Sales and Services Tax Reserve Fund.

The County did not comply with provision (b). Sufficient monthly deposits are not being made. The County has only been transferring money at the time each payment comes due.

CLARKE COUNTY
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2006

Note 7. Long-Term Liabilities (continued)

Child Care Center Revenue Notes

Details of the County's June 30, 2006 child care center revenue notes are as follows:

Year Ending June 30,	Interest Rates	Principal	Interest	Total
2007	4.75 %	\$ 5,664	\$ 25,868	\$ 31,532
2008	4.75	5,933	25,599	31,532
2009	4.75	6,215	25,317	31,532
2010	4.75	6,510	25,022	31,532
2011	4.75	6,819	24,713	31,532
2012-2016	4.75	39,273	118,387	157,660
2017-2021	4.75	49,529	108,131	157,660
2022-2026	4.75	62,464	95,196	157,660
2027-2031	4.75	78,778	78,882	157,660
2032-2036	4.75	99,351	58,309	157,660
2037-2041	4.75	125,298	32,362	157,660
2042-2043	4.75	58,759	4,223	62,982
Total		\$ <u>544,593</u>	\$ <u>622,009</u>	\$ <u>1,166,602</u>

In August 2002, the County entered into a USDA Rural Development loan agreement for Child Care Center Revenue Notes in the amount of \$550,000 to finance a portion of the cost of the construction and furnishing of a child care and early education center. The notes will be paid over forty years with an annual interest rate of 4.75%. The notes are payable solely from the revenues of the child care center, which is to be operated by The Village, Ltd., an Iowa nonprofit corporation. The notes are not a general obligation of the County and are not subject to the constitutional debt limitation of the County.

The resolution providing for the issuance of the child care center revenue notes includes the following provisions:

- (a) The notes will only be redeemed from the revenues derived from the operation of the child care center. Revenues sufficient to pay principal and interest on the notes are to be received from The Village, Ltd. by July 1 of each year when the payment is due.
- (b) Monthly deposits of \$263 from the child care center shall be made to the Child Care Center Reserve Fund until the sum of \$31,532 has been accumulated in the fund. The fund is to be used solely for the purpose of paying principal and interest in the event the revenue fund does not have sufficient funds for that purpose.
- (c) Monthly deposits of \$200 from the child care center shall also be made to the Child Care Center Reserve Fund for funded depreciation.

CLARKE COUNTY

NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2006

Note 8. Radio Equipment Operating Lease

The Secondary Roads Department is leasing a radio communications system with monthly lease payments of \$663. The lease is indefinite but the monthly lease payments per radio unit used are guaranteed until June 30, 2008. The County has the option to cancel the lease at any time. The minimum lease payments due in the next year is \$7,956. Rental expense for the year ended June 30, 2006 was \$7,871.

Note 9. Pension and Retirement Benefits

The County contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117.

Most regular plan members are required to contribute 3.70% of their annual covered salary and the County is required to contribute 5.75% of covered salary. Certain employees in special risk occupations and the County contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The County's contributions to IPERS for the years ended June 30, 2006, 2005 and 2004 were \$169,647, \$160,395 and \$150,230, respectively, equal to the required contributions for each year.

Note 10. Risk Management

Clarke County is a member in the Iowa Communities Assurance Pool, as allowed by Chapter 331.301 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool with over 531 members from various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property, inland marine, and boiler/machinery. There have been no reductions in insurance coverage from prior years.

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained to equal 300 percent of the total current members' basis rates or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

The Pool also provides property coverage. Members who elect such coverage make annual operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses and reinsurance premiums, all of which are due and payable in the current year, plus all or any portion of any deficiency in capital. Any year-end operating surplus is transferred to capital. Deficiencies in operations are offset by transfers from capital and, if insufficient, by the subsequent year's member contributions.

The County's property and casualty contributions to the risk pool are recorded as expenditures from its operating funds at the time of payment to the risk pool. The County's annual contributions to the Pool for the year ended June 30, 2006 were \$108,447.

CLARKE COUNTY

NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2006

Note 10. Risk Management (continued)

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$350,000 per claim. Claims exceeding \$350,000 are reinsured in an amount not to exceed \$2,650,000 per claim and \$5,000,000 in aggregate per year. For members requiring specific coverage from \$2,000,000 to \$10,000,000, such excess coverage is also reinsured. Property and automobile physical damage risks are retained by the Pool up to \$100,000 each occurrence, each location, with excess coverage reinsured on an individual member basis.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event that a series of casualty claims exhausts total members' equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. The County does not report a liability for losses in excess of reinsurance or excess risk-sharing recoveries unless it is deemed probable that such losses have occurred and the amount of such loss can be reasonably estimated. Accordingly, at June 30, 2006, no liability has been recorded in the County's financial statements. As of June 30, 2006, settled claims have not exceeded the risk pool or reinsurance company coverage since the pool's inception.

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days prior written notice may withdraw from the Pool. Upon withdrawal, payments for all claims and claims expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Members withdrawing within the first six years of membership may receive a partial refund of their capital contributions. If a member withdraws after the sixth year, the member is refunded 100 percent of its capital contributions. However, the refund is reduced by an amount equal to the annual operating contribution which the withdrawing member would have made for the one year period following withdrawal.

The County also carries commercial insurance purchased from other insurers for coverage associated with workers compensation and employee blanket bond in the amount of \$1,000,000 and \$100,000, respectively. The County assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Note 11. Employee Health Insurance Plan

The County provides health coverage through a minimum premium health insurance plan which is administered by Principal Financial Group (Principal). The County purchases commercial insurance to provide for aggregate stop-loss coverage and specific stop-loss reinsurance coverage. Settled claims have not exceeded the commercial coverage in the plan year ended June 30, 2006.

Monthly payments of service fees and plan contributions to the Clarke County Principal Health Fund are recorded as expenditures from the operating funds. Under the administrative services agreement, monthly payments of service fees and claims processed are paid to Principal from the Clarke County Principal Health Fund. The County records the plan assets and related liabilities of the Principal Health fund as an Internal Service Fund. The County's contributions to the fund for the year ended June 30, 2006 were \$454,110.

CLARKE COUNTY

NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2006

Note 12. Contingent Liability

Hospital Revenue Bonds

Clarke County has issued general obligation hospital revenue bonds in accordance with Chapter 347A.1 of the Code of Iowa. The proceeds were used to remodel the hospital and build an ambulance garage. The bonds are payable primarily from revenues of the hospital. The balance of bonds unpaid at June 30, 2006 is \$600,000. The County is contingently liable for any debt service payments not covered by hospital revenues.

Required Supplementary Information

CLARKE COUNTY

Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances – Budget and Actual (Cash Basis) – All Governmental Funds Required Supplementary Information Year Ended June 30, 2006

	Actual	Budgeted Amounts		Final to Net Variance
		Original	Final	
RECEIPTS:				
Property and other County tax	\$ 3,640,997	\$ 3,570,014	\$ 3,570,014	\$ 70,983
Interest and penalty on property tax	37,986	45,000	45,000	(7,014)
Intergovernmental	2,993,120	2,847,546	2,859,557	133,563
Licenses and permits	8,810	12,600	12,600	(3,790)
Charges for service	264,017	256,580	256,580	7,437
Use of money and property	196,187	96,757	156,394	39,793
Miscellaneous	307,340	224,250	232,594	74,746
Total receipts	<u>7,448,457</u>	<u>7,052,747</u>	<u>7,132,739</u>	<u>315,718</u>
DISBURSEMENTS:				
Public safety and legal services	1,388,825	1,308,921	1,397,719	8,894
Physical health and social services	917,665	902,106	924,067	6,402
Mental health	810,394	949,206	949,206	138,812
County environment and education	240,271	258,966	258,966	18,695
Roads and transportation	2,143,433	2,184,800	2,184,800	41,367
Government services to residents	393,130	411,161	411,311	18,181
Administration	737,691	726,719	769,668	31,977
Debt service	543,682	626,540	626,640	82,958
Capital projects	98,922	145,800	148,139	49,217
Total disbursements	<u>7,274,013</u>	<u>7,514,219</u>	<u>7,670,516</u>	<u>396,503</u>
Excess (deficiency) of receipts over (under) disbursements	174,444	(461,472)	(537,777)	712,221
Other financing sources, net	<u>30,000</u>	<u>118,022</u>	<u>118,022</u>	<u>(88,022)</u>
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	204,444	(343,450)	(419,755)	624,199
Balance beginning of year	<u>4,081,403</u>	<u>3,617,449</u>	<u>3,617,449</u>	<u>463,954</u>
Balance end of year	<u>\$ 4,285,847</u>	<u>\$ 3,273,999</u>	<u>\$ 3,197,694</u>	<u>\$ 1,088,153</u>

See accompanying independent auditor's report.

CLARKE COUNTY

Budgetary Comparison Schedule – Budget to GAAP Reconciliation Required Supplementary Information Year Ended June 30, 2006

	Governmental Funds		
	Cash Basis	Accrual Adjust- ments	Modified Accrual Basis
Revenues	\$ 7,448,457	\$ 142,897	\$ 7,591,354
Expenditures	7,274,013	197,381	7,471,394
Net	174,444	(54,484)	119,960
Other financing sources	30,000	-	30,000
Beginning fund balances	4,081,403	112,403	4,193,806
Ending fund balances	<u>\$ 4,285,847</u>	<u>\$ 57,919</u>	<u>\$ 4,343,766</u>

See accompanying independent auditor's report.

CLARKE COUNTY

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY REPORTING

June 30, 2006

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the County Board of Supervisors annually adopts a budget on the cash basis following required public notice and hearing for all funds except blended component units, internal service funds and agency funds, and appropriates the amount deemed necessary for each of the different County offices and departments. The budget may be amended during the year utilizing similar statutorily prescribed procedures. Encumbrances are not recognized on the cash basis budget and appropriations lapse at year end.

Formal and legal budgetary control is based upon ten major classes of expenditures known as functions, not by fund or fund type. These ten functions are: public safety and legal services, physical health and social services, mental health, county environment and education, roads and transportation, government services to residents, administration, non-program, debt service and capital projects. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund and Capital Projects Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. Legal budgetary control is also based upon the appropriation to each office or department. During the year, a budget amendment increased budgeted disbursements by \$156,297. This budget amendment is reflected in the final budgeted amounts.

In addition, annual budgets are similarly adopted in accordance with the Code of Iowa by the appropriate governing body as indicated: for the County Extension Office by the County Agricultural Extension Council, for the County Assessor by the County Conference Board and for Emergency Management Services by the County Environmental Services Board.

During the year ended June 30, 2006, disbursements in three departments exceeded the amounts appropriated prior to the amendment of the appropriations. In addition, disbursements exceeded the amount budgeted for the County Extension Office.

Other Supplementary Information

CLARKE COUNTY
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
June 30, 2006

	Special Revenue				
	County Recorder's Records Management	County Recorder's Electronic Transaction Fee	REAP	Conservation Land Acquisition	Environmental Education
Assets					
Cash and pooled investments	\$ 5,714	\$ 181	\$ 68,326	\$ 66,384	\$ 24,005
Receivables:					
Property tax:					
Delinquent	-	-	-	-	-
Succeeding year	-	-	-	-	-
Accounts	203	-	-	-	-
Accrued interest	73	-	113	-	164
Total assets	<u>\$ 5,990</u>	<u>\$ 181</u>	<u>\$ 68,439</u>	<u>\$ 66,384</u>	<u>\$ 24,169</u>
Liabilities and Fund Equity					
Liabilities:					
Accounts payable	\$ -	\$ -	\$ -	\$ 29,810	\$ -
Deferred revenue:					
Succeeding year property tax	-	-	-	-	-
Other	-	-	-	-	-
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>29,810</u>	<u>-</u>
Fund equity:					
Fund balances:					
Reserved for:					
Debt service	-	-	-	-	-
Local option sales and services tax revenue bonds	-	-	-	-	-
Unreserved	5,990	181	68,439	36,574	24,169
Total fund equity	<u>5,990</u>	<u>181</u>	<u>68,439</u>	<u>36,574</u>	<u>24,169</u>
Total liabilities and fund equity	<u>\$ 5,990</u>	<u>\$ 181</u>	<u>\$ 68,439</u>	<u>\$ 66,384</u>	<u>\$ 24,169</u>

See accompanying independent auditor's report.

County Attorney Forfeiture	Local Option Sales and Services Tax Reserve	SIRWA Grid Project Sinking	Debt Service			Total
			Courthouse Projects	Landfill Project	Child Care Center Reserve	
\$ 8,631	\$ 368,000	\$ 12,500	\$ 4,765	\$ 1,742	\$ 15,742	\$ 575,990
-	-	-	821	-	-	821
-	-	-	83,000	-	-	83,000
-	-	-	-	-	463	666
-	-	-	-	-	-	350
<u>\$ 8,631</u>	<u>\$ 368,000</u>	<u>\$ 12,500</u>	<u>\$ 88,586</u>	<u>\$ 1,742</u>	<u>\$ 16,205</u>	<u>\$ 660,827</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 29,810
-	-	-	83,000	-	-	83,000
-	-	-	821	-	-	821
-	-	-	83,821	-	-	113,631
-	-	-	4,765	1,742	16,205	22,712
-	368,000	-	-	-	-	368,000
8,631	-	12,500	-	-	-	156,484
<u>8,631</u>	<u>368,000</u>	<u>12,500</u>	<u>4,765</u>	<u>1,742</u>	<u>16,205</u>	<u>547,196</u>
<u>\$ 8,631</u>	<u>\$ 368,000</u>	<u>\$ 12,500</u>	<u>\$ 88,586</u>	<u>\$ 1,742</u>	<u>\$ 16,205</u>	<u>\$ 660,827</u>

CLARKE COUNTY

COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
Year Ended June 30, 2006

	Special Revenue			
	County Recorder's Records Management	County Recorder's Electronic Transaction Fee	REAP	Conservation Land Acquisition
Revenues:				
Property and other County tax	\$ -	\$ -	\$ -	\$ -
Intergovernmental	-	-	4,418	-
Charges for service	2,498	-	-	-
Use of money and property	176	24	1,181	5,394
Miscellaneous	-	-	-	-
Total revenues	<u>2,674</u>	<u>24</u>	<u>5,599</u>	<u>5,394</u>
Expenditures:				
Operating:				
Government services to residents	5,000	11,059	-	-
Debt service	-	-	-	-
Capital projects	-	-	-	29,810
Total expenditures	<u>5,000</u>	<u>11,059</u>	<u>-</u>	<u>29,810</u>
Excess (deficiency) of revenues over (under) expenditures	(2,326)	(11,035)	5,599	(24,416)
Other financing sources:				
Interfund transfers in	-	-	-	-
Net change in fund balances	(2,326)	(11,035)	5,599	(24,416)
Fund balances beginning of year	<u>8,316</u>	<u>11,216</u>	<u>62,840</u>	<u>60,990</u>
Fund balances end of year	<u>\$ 5,990</u>	<u>\$ 181</u>	<u>\$ 68,439</u>	<u>\$ 36,574</u>

					Debt Service	
Environmental Education	County Attorney Forfeiture	Local Option Sales and Services Tax Revenue Bond and Interest Sinking	Local Option Sales and Services Tax Reserve	SIRWA Grid Project Sinking	Courthouse Projects	Landfill Project
\$ -	\$ -	\$ -	\$ -	\$ -	84,597	\$ -
-	-	-	-	-	26,427	46,590
-	-	-	-	-	-	-
428	-	-	-	-	-	-
380	645	-	-	-	-	-
808	645	-	-	-	111,024	46,590
-	-	-	-	-	-	-
-	-	350,674	-	-	120,873	47,208
-	-	-	-	-	-	-
-	-	350,674	-	-	120,873	47,208
808	645	(350,674)	-	-	(9,849)	(618)
-	-	174,055	-	12,500	-	-
808	645	(176,619)	-	12,500	(9,849)	(618)
23,361	7,986	176,619	368,000	-	14,614	2,360
\$ 24,169	\$ 8,631	\$ -	\$ 368,000	\$ 12,500	\$ 4,765	\$ 1,742

CLARKE COUNTY

COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
Year Ended June 30, 2006

	Child Care Center Reserve	Total
Revenues:		
Property and other County tax	\$ -	\$ 84,597
Intergovernmental	3,419	80,854
Charges for service	-	2,498
Use of money and property	-	7,203
Miscellaneous	2,600	3,625
Total revenues	6,019	178,777
Expenditures:		
Operating:		
Government services to residents	-	16,059
Debt service	-	518,755
Capital projects	-	29,810
Total expenditures	-	564,624
Excess (deficiency) of revenues over (under) expenditures	6,019	(385,847)
Other financing sources:		
Interfund transfers in	-	186,555
Net change in fund balances	6,019	(199,292)
Fund balances beginning of year	10,186	746,488
Fund balances end of year	\$ 16,205	\$ 547,196

See accompanying independent auditor's report.

CLARKE COUNTY
 COMBINING SCHEDULE OF NET ASSETS
 INTERNAL SERVICE FUNDS
 June 30, 2006

	<u>Flexible Spending</u>	<u>Principal Health</u>	<u>Total</u>
Assets			
Cash and cash equivalents	\$ <u>11,828</u>	\$ <u>234,412</u>	\$ <u>246,240</u>
Liabilities			
None	<u>-</u>	<u>-</u>	<u>-</u>
Net Assets			
Unrestricted	\$ <u><u>11,828</u></u>	\$ <u><u>234,412</u></u>	\$ <u><u>246,240</u></u>

See accompanying independent auditor's report.

CLARKE COUNTY

COMBINING SCHEDULE OF REVENUES, EXPENSES, AND CHANGES NET ASSETS
INTERNAL SERVICE FUNDS
Year Ended June 30, 2006

	Flexible Spending	Principal Health	Total
Operating revenues:			
Charges to operating funds	\$ -	\$ 454,110	\$ 454,110
Charges to employees and others	16,400	137,071	153,471
Total operating revenues	<u>16,400</u>	<u>591,181</u>	<u>607,581</u>
Operating expenses:			
Medical claims	-	376,044	376,044
Flexible spending claims	4,032	-	4,032
Administrative fees	540	181,043	181,583
Total operating expenses	<u>4,572</u>	<u>557,087</u>	<u>561,659</u>
Operating income	11,828	34,094	45,922
Non-operating revenues:			
Interest on investments	-	6,157	6,157
Net income	11,828	40,251	52,079
Net assets beginning of year	-	194,161	194,161
Net assets end of year	<u>\$ 11,828</u>	<u>\$ 234,412</u>	<u>\$ 246,240</u>

See accompanying independent auditor's report.

CLARKE COUNTY
 COMBINING SCHEDULE OF CASH FLOWS
 INTERNAL SERVICE FUNDS
 Year Ended June 30, 2006

	Flexible Spending	Principal Health	Total
Cash flows from operating activities:			
Cash received from operating fund reimbursements	\$ -	\$ 413,180	\$ 413,180
Cash received from employees and others	16,400	137,071	153,471
Cash payments to suppliers for services	(4,572)	(544,559)	(549,131)
Net cash provided by operating activities	<u>11,828</u>	<u>5,692</u>	<u>17,520</u>
Cash flows from investing activities:			
Interest on investments	<u>-</u>	<u>6,627</u>	<u>6,627</u>
Net increase in cash and cash equivalents	11,828	12,319	24,147
Cash and cash equivalents at beginning of year	<u>-</u>	<u>222,093</u>	<u>222,093</u>
Cash and cash equivalents at end of year	<u>\$ 11,828</u>	<u>\$ 234,412</u>	<u>\$ 246,240</u>
Reconciliation of operating income to net cash provided by operating activities:			
Operating income	\$ 11,828	\$ 34,094	\$ 45,922
Adjustments to reconcile operating income to net cash provided by operating activities:			
Decrease in prepaid expenses	-	15,393	15,393
(Decrease) in accounts payable	-	(2,865)	(2,865)
(Decrease) in deferred revenue	<u>-</u>	<u>(40,930)</u>	<u>(40,930)</u>
Net cash provided by operating activities	<u>\$ 11,828</u>	<u>\$ 5,692</u>	<u>\$ 17,520</u>

See accompanying independent auditor's report.

CLARKE COUNTY

COMBINING SCHEDULE OF FIDUCIARY ASSETS AND LIABILITIES
AGENCY FUNDS

June 30, 2006

	County Offices		Agricultural	County
	County	County	Extension	Assessor
	Recorder	Sheriff	Education	
ASSETS				
Cash and pooled investments:				
County Treasurer	\$ -	\$ -	1,089	\$ 47,499
Other County officials	7,800	30,381	-	-
Receivables:				
Property tax:				
Delinquent	-	-	574	2,038
Succeeding year	-	-	56,000	198,000
Due from other governments	-	-	-	-
Prepaid expenses	-	-	-	3,555
Total assets	\$ <u>7,800</u>	\$ <u>30,381</u>	\$ <u>57,663</u>	\$ <u>251,092</u>
LIABILITIES				
Accounts payable	\$ 7,762	\$ 6,807	\$ -	\$ 702
Salaries and benefits payable	-	-	-	2,507
Due to other governments	38	-	57,663	237,645
Trusts payable	-	23,574	-	-
Compensated absences	-	-	-	10,238
Total liabilities	\$ <u>7,800</u>	\$ <u>30,381</u>	\$ <u>57,663</u>	\$ <u>251,092</u>

<u>Schools</u>	<u>Area Schools</u>	<u>Corporations</u>	<u>Townships</u>	<u>City Special Assessments</u>	<u>County Hospital</u>	<u>Brucellosis and Tuberculosis Eradication</u>
\$ 78,713	\$ 3,485	\$ 50,894	\$ 2,121	\$ 2,025	\$ 23,796	\$ 12
-	-	-	-	-	-	-
41,476	1,836	50,332	765	-	12,412	5
4,139,000	180,000	2,484,000	111,000	-	1,224,000	1,000
-	-	-	-	-	-	-
-	-	-	-	-	-	-
<u>\$ 4,259,189</u>	<u>\$ 185,321</u>	<u>\$ 2,585,226</u>	<u>\$ 113,886</u>	<u>\$ 2,025</u>	<u>\$ 1,260,208</u>	<u>\$ 1,017</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-	-
4,259,189	185,321	2,585,226	113,886	2,025	1,260,208	1,017
-	-	-	-	-	-	-
-	-	-	-	-	-	-
<u>\$ 4,259,189</u>	<u>\$ 185,321</u>	<u>\$ 2,585,226</u>	<u>\$ 113,886</u>	<u>\$ 2,025</u>	<u>\$ 1,260,208</u>	<u>\$ 1,017</u>

CLARKE COUNTY

COMBINING SCHEDULE OF FIDUCIARY ASSETS AND LIABILITIES
AGENCY FUNDS
June 30, 2006

	Auto License and Use Tax	Advance Tax	Tax Sale Redemption	Emergency Management
ASSETS				
Cash and pooled investments:				
County Treasurer	\$ 132,536	\$ 111,877	\$ 17,041	\$ 17,150
Other County officials	-	-	-	-
Receivables:				
Property tax:				
Delinquent	-	-	-	-
Succeeding year	-	-	-	-
Due from other governments	-	-	-	-
Prepaid expenses	-	-	-	-
	<hr/>			
Total assets	\$ <u>132,536</u>	\$ <u>111,877</u>	\$ <u>17,041</u>	\$ <u>17,150</u>
LIABILITIES				
Accounts payable	\$ 6,075	\$ -	\$ -	-
Salaries and benefits payable	-	-	-	543
Due to other governments	126,461	111,877	-	15,820
Trusts payable	-	-	17,041	-
Compensated absences	-	-	-	787
	<hr/>			
Total liabilities	\$ <u>132,536</u>	\$ <u>111,877</u>	\$ <u>17,041</u>	\$ <u>17,150</u>

See accompanying independent auditor's report.

County Recorder's Electronic Transaction Fee	Homemakers Health Payroll	Total
\$ 232	\$ (33,286)	\$ 455,184
-	-	38,181
-	-	109,438
-	-	8,393,000
-	39,195	39,195
-	-	3,555
<u>\$ 232</u>	<u>\$ 5,909</u>	<u>\$ 9,038,553</u>
\$ -	\$ -	\$ 21,346
-	5,909	8,959
232	-	8,956,608
-	-	40,615
-	-	11,025
<u>\$ 232</u>	<u>\$ 5,909</u>	<u>\$ 9,038,553</u>

CLARKE COUNTY

COMBINING SCHEDULE OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES
 AGENCY FUNDS
 Year Ended June 30, 2006

	County Offices		Agricultural	County
	County	County	Extension	County
	Recorder	Sheriff	Education	Assessor
ASSETS AND LIABILITIES				
Balances beginning of year	\$ 7,820	\$ 27,658	\$ 59,041	\$ 226,264
Additions:				
Property and other County tax	-	-	55,093	194,340
State tax credits	-	-	2,959	10,505
Public Disaster Assistance Grants	-	-	-	-
Office fees and collections	157,671	362,863	-	-
Auto license, use tax, drivers license and postage	-	-	-	-
Trusts	-	201,602	-	-
Assessments	-	-	-	-
Miscellaneous	-	-	-	2,678
Total additions	157,671	564,465	58,052	207,523
Deductions:				
Agency remittances:				
To other funds	86,310	358,296	-	-
To other governments	71,381	675	59,430	182,695
Trusts paid out	-	202,771	-	-
Total deductions	157,691	561,742	59,430	182,695
Balances end of year	\$ 7,800	\$ 30,381	\$ 57,663	\$ 251,092

<u>Schools</u>	<u>Area Schools</u>	<u>Corporations</u>	<u>Townships</u>	<u>City Special Assessments</u>	<u>County Hospital</u>	<u>Brucellosis and Tuberculosis Eradication</u>
\$ 4,275,706	\$ 189,478	\$ 2,518,168	\$ 110,165	\$ 8,285	\$ 1,287,340	\$ 1,311
4,063,935	176,520	2,385,026	111,705	-	1,202,071	594
212,347	9,474	99,569	6,475	-	64,235	35
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	19,483	-	-
-	-	-	-	-	-	-
4,276,282	185,994	2,484,595	118,180	19,483	1,266,306	629
-	-	-	-	-	-	-
4,292,799	190,151	2,417,537	114,459	25,743	1,293,438	923
-	-	-	-	-	-	-
4,292,799	190,151	2,417,537	114,459	25,743	1,293,438	923
\$ 4,259,189	\$ 185,321	\$ 2,585,226	\$ 113,886	\$ 2,025	\$ 1,260,208	\$ 1,017

CLARKE COUNTY

COMBINING SCHEDULE OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES
AGENCY FUNDS
Year Ended June 30, 2006

	Auto License and Use Tax	Anatomical Gift, Public Awareness and Transportation	Advance Tax	Tax Sale Redemption
ASSETS AND LIABILITIES				
Balances beginning of year	\$ 160,356	\$ -	\$ 133,847	\$ 17,261
Additions:				
Property and other County tax	-	-	-	-
State tax credits	-	-	-	-
Public Disaster Assistance Grants	-	-	-	-
Office fees and collections	-	-	-	-
Auto license, use tax, drivers license and postage	1,843,672	54	-	-
Trusts	-	-	-	224,222
Assessments	-	-	-	-
Miscellaneous	-	-	115,413	-
Total additions	1,843,672	54	115,413	224,222
Deductions:				
Agency remittances:				
To other funds	78,973	-	-	-
To other governments	1,792,519	54	137,383	-
Trusts paid out	-	-	-	224,442
Total deductions	1,871,492	54	137,383	224,442
Balances end of year	\$ 132,536	\$ -	\$ 111,877	\$ 17,041

See accompanying independent auditor's report.

<u>Emergency Management</u>	<u>County Recorder's Electronic Transaction Fee</u>	<u>Homemakers Health Payroll</u>	<u>Total</u>
\$ 22,353	\$ 431	\$ 8,370	\$ 9,053,854
-	-	-	8,189,284
-	-	-	405,599
20,182	-	-	20,182
-	2,295	-	522,829
-	-	-	1,843,726
-	-	-	425,824
-	-	-	19,483
18,000	-	285,030	421,121
38,182	2,295	285,030	11,848,048
-	-	-	523,579
43,385	2,494	287,491	10,912,557
-	-	-	427,213
43,385	2,494	287,491	11,863,349
\$ 17,150	\$ 232	\$ 5,909	\$ 9,038,553

CLARKE COUNTY

SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION

ALL GOVERNMENTAL FUNDS
FOR THE LAST FOUR YEARS

	Modified Accrual Basis			
	2006	2005	2004	2003
Revenues:				
Property and other County tax	\$ 3,728,172	\$ 3,843,161	\$ 3,689,605	\$ 3,677,407
Interest and penalty on property tax	37,986	45,088	48,662	46,299
Intergovernmental	3,031,600	3,133,909	3,263,356	3,865,074
Licenses and permits	8,890	11,835	11,087	8,233
Charges for service	268,264	229,834	247,817	199,686
Use of money and property	192,814	115,778	87,039	71,234
Miscellaneous	323,628	307,346	259,402	220,805
Total	<u>\$ 7,591,354</u>	<u>\$ 7,686,951</u>	<u>\$ 7,606,968</u>	<u>\$ 8,088,738</u>
Expenditures:				
Operating:				
Public safety and legal services	\$ 1,369,187	\$ 1,308,070	\$ 1,324,079	\$ 1,257,151
Physical health and social services	897,918	847,740	849,017	825,843
Mental health	1,021,097	891,323	871,928	896,733
County environment and education	248,329	230,743	219,673	806,721
Roads and transportation	2,149,188	2,452,539	2,158,595	2,445,537
Government services to residents	388,646	312,804	275,606	247,941
Administration	729,359	671,734	679,515	611,669
Debt service	543,682	688,377	652,823	557,948
Capital projects	123,988	744,897	427,080	159,419
Total	<u>\$ 7,471,394</u>	<u>\$ 8,148,227</u>	<u>\$ 7,458,316</u>	<u>\$ 7,808,962</u>

See accompanying independent auditor's report.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Officials of Clarke County:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Clarke County, Iowa, as of and for the year ended June 30, 2006, which collectively comprise the County's basic financial statements listed in the table of contents and have issued our report thereon dated December 20, 2006. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Clarke County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Clarke County's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part I of the accompanying Schedule of Findings.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item I-A-06 is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Clarke County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations and contracts, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the County's operations for the year ended June 30, 2006 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the County. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Clarke County and other parties to whom Clarke County may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Clarke County during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Oskaloosa, Iowa
December 20, 2006

CLARKE COUNTY
SCHEDULE OF FINDINGS
Year Ended June 30, 2006

Part I: Findings Related to the General Purpose Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITIONS:

I-A-06 Segregation of Duties

Comment – During our review of the internal control structure, the existing procedures are evaluated in order to determine that incompatible duties, from a control standpoint, are not performed by the same employee. This segregation of duties helps to prevent losses from employee error or dishonesty and therefore maximizes the accuracy of the County's financial statements. We noted that generally one or two individuals in the offices identified may have control over the following areas for which no compensating controls exist:

	<u>Applicable Offices</u>
(1) All incoming mail should be opened by an employee who is not authorized to make entries to the accounting records. This employee should prepare a listing of cash and checks received. The mail should then be forwarded to the accounting personnel for processing. Later, the same listing should be compared to the cash receipt records.	Ag Extension, Recorder, Sheriff
(2) Bank accounts should be reconciled promptly at the end of each month by an individual who does not sign checks or handle or record cash.	Ag Extension, Recorder, Sheriff, Treasurer
(3) Checks or warrants should be signed by an individual who does not otherwise participate in the preparation of the checks or warrants. Prior to signing, the checks or warrants and the supporting documentation should be reviewed for propriety.	Recorder, Sheriff
(4) After signing, the checks or warrants should be mailed without allowing them to return to individuals who prepare the checks or warrants or approve vouchers for payment.	Ag Extension, Auditor, Sheriff

Recommendation – We realize that with a limited number of office employees, segregation of duties is difficult. However, each official should review the control procedures of their office to obtain the maximum internal control possible under the circumstances. The official should utilize current personnel to provide additional control through review of financial transactions, reconciliations and reports. Such reviews should be performed by independent persons to the extent possible, and should be evidenced by the initials or signature of the reviewer and the date of the review.

CLARKE COUNTY
SCHEDULE OF FINDINGS

Year Ended June 30, 2006

Part I: Findings Related to the General Purpose Financial Statements (continued):

REPORTABLE CONDITIONS (continued):

I-A-06 Segregation of Duties (continued)

Responses –

Ag Extension – We will review procedures and try to make any necessary changes to improve internal control.

County Auditor – The Auditor is currently evaluating all disbursement transactions and documenting each review on the applicable disbursement records. Two individuals in most instances are now jointly involved in the check preparing, signing, and mailing process.

County Recorder – We have established a set of checks and balances to review each individual's work in the office, which gives us the maximum internal control possible using the limited number of office employees we have.

County Sheriff - We will review procedures and try to make any necessary changes to improve internal control.

County Treasurer – We have improved procedures during the year and will try to make any necessary changes to improve internal control in the future.

Conclusion – Responses accepted.

I-B-06 Disbursement Approval – Sheriff's Office – Forfeiture, D.A.R.E., and Canine Drug Dog revenues (including donations) are accumulated in the Sheriff's office trust accounts and have been used to directly pay for items such as Canine Drug Dog expenses, forfeiture fees, and equipment. Receipt and disbursement control lies in the hands of one individual.

Recommendation – This activity should be included in the County's annual budget and financial statements as a special revenue fund. Proceeds are accepted by the County with the understanding that they are for additional law enforcement efforts. This means that monies so designated are not to replace those already budgeted. The receipt and disbursement of proceeds of this type may require a budget amendment at some time before the end of the fiscal year. All proceeds disbursed should be charged to the appropriate expenditure account in accordance with the Uniform Chart of Accounts for County Governments in Iowa.

Response – We closed this account in fiscal year 2007 and deposited it into a Special Revenue, Drug Forfeiture Fund.

Conclusion – Response accepted.

CLARKE COUNTY
SCHEDULE OF FINDINGS

Year Ended June 30, 2006

Part I: Findings Related to the General Purpose Financial Statements (continued):

REPORTABLE CONDITIONS (continued):

- I-C-06 Unauthorized Signatures – We noted that two former employees are still listed as authorized check signers on one bank account for the Sheriff’s Office.

Recommendation – The Sheriff’s Office should update the authorized signatures for this account as soon as possible. All signature authorizations should be updated immediately whenever a change in applicable employees occurs.

Response – We will properly maintain and update all signature authorizations in the future.

Conclusion – Response accepted.

- I-D-06 Apportionment Errors – We noted that the County apportioned approximately \$523 of tax collections to the General Basic Fund that should have been apportioned to the Agency, Brucellosis and Tuberculosis Eradication Fund.

Recommendation – The County should make a corrective transfer from the General Basic Fund to the Brucellosis and Tuberculosis Eradication Fund for the amount of the error.

Response – We have made this correction.

Conclusion – Response accepted.

- I-E-06 Delinquent Taxes – We noted some unexplained differences on the County Treasurer’s delinquent tax reconciliation. In addition, the County recorded a voided tax sale refund as a negative delinquent tax collection.

Recommendation – The County Treasurer should prepare a delinquent tax reconciliation by taxing district at year end and investigate and resolve any variances noted. Any voided tax sale refunds should be recorded through current tax collections, rather than delinquent tax collections.

Response – We have now discovered and corrected all differences in our delinquent tax reconciliation. We will investigate and resolve any variances in the delinquent tax reconciliation in the future. We will also properly record any voided tax sale refunds in the future.

Conclusion – Response accepted.

CLARKE COUNTY
SCHEDULE OF FINDINGS

Year Ended June 30, 2006

Part II: Other Findings Related to Required Statutory Reporting:

- II-A-06 Certified Budget – Disbursements during the year ended June 30, 2006 did not exceed the amounts budgeted in any of the ten County functions. However, disbursements in three departments (district court, data processing, and juvenile justice) exceeded the amounts appropriated prior to the amendment of the appropriations.

Recommendation – Chapter 331.434(6) of the Code of Iowa authorizes the Board of Supervisors, by resolution, to increase or decrease appropriations of one office or department by increasing or decreasing the appropriation of another office or department as long as the service area budget is not increased. Such increases or decreases should be made before disbursements are allowed to exceed the appropriation.

Response – Appropriations will be watched more closely by the departments.

Conclusion – Response accepted.

- II-B-06 Questionable Expenditures – No expenditures were noted that may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979.
- II-C-06 Travel Expense – No expenditures of County money for travel expenses of spouses of County officials or employees were noted.
- II-D-06 Business Transactions – No business transactions between the County and County officials or employees were noted.
- II-E-06 Bond Coverage – Surety bond coverage of County officials and employees is in accordance with statutory provisions. The amount of all bonds should be reviewed periodically to insure that the coverage remains adequate for current operations.
- II-F-06 Board Minutes – No transactions were found that we believe should have been approved in the Board minutes but were not.
- II-G-06 Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the County’s investment policy were noted.
- II-H-06 Resource Enhancement and Protection Certification – The County properly dedicated property tax revenue to conservation purposes as required by Chapter 455A.19(1)(b) of the Code of Iowa in order to receive the additional REAP funds allocated in accordance with subsections (b)(2) and (b)(3).

CLARKE COUNTY
SCHEDULE OF FINDINGS

Year Ended June 30, 2006

Part II: Other Findings Related to Required Statutory Reporting (continued):

- II-I-06 County Extension Office – The County Extension Office is operated under the authority of Chapter 176A of the Code of Iowa and serves as an agency of the State of Iowa. This fund is administered by an extension council separate and distinct from County operations and, consequently, is not included in Exhibits A or B.

The Board Treasurer's bond covered the amount required by Chapter 176A.14(5) of the Code of Iowa.

Disbursements during the year ended June 30, 2006 for the County Extension Office exceeded the amount budgeted.

Recommendation – The budget should have been amended before disbursements were allowed to exceed the budget.

Response – We will monitor disbursements more closely in the future and amend the budget when required.

Conclusion – Response accepted.

- II-J-06 Building on Leased Land – We noted one parcel that was taxed as a building on leased land for the second floor of a building. However, the same person owns the entire building and the land.

Recommendation – The County should investigate the possibility of combining the building and land into one parcel to avoid non-collection of taxes on the building on leased land portion.

Response – We have now combined these parcels into one parcel and will investigate collection of past delinquent taxes.

Conclusion – Response accepted.

- II-K-06 Required Transfers to Local Option Sales and Services Tax Funds – The local option sales and services tax (LOSST) revenue bond provisions require monthly payments of one sixth of the next principal and interest payment to the sinking fund. However, the County only made one semiannual transfer during the year ended June 30, 2006.

Recommendation – The County should make monthly transfers of one sixth of the next principal and interest payment due on the bonds to the Local Option Sales and Services Tax Revenue Bond and Interest Sinking Fund.

Response – We will properly make the required transfers in the future.

Conclusion – Response accepted.

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